

August 31, 2001

The Honorable Ernest Istook, Jr.
Chairman
Subcommittee on Treasury Postal Service and General Government
Committee on Appropriations
Washington, DC 20515

Dear Chairman Istook:

The IRS Oversight Board is writing this letter to comment on recent action by the House of Representatives in passing H.R. 2590, the Treasury Postal and General Government Appropriations Act. Passage of this bill indicated to members of the IRS Oversight Board that funding issues raised by the Board received some consideration by the House of Representatives in appropriating FY2002 funds for the IRS. However, two issues have emerged after the IRS Oversight Board submitted its report on IRS budget needs that now threaten to erode the budget increases you were seeking. These issues are the 4.6 percent pay raise for federal employees and FY2002 activity to fully implement the advance tax rebate program.

H.R. 2590 contains \$32 million more for the IRS FY2002 budget than was recommended by the Administration. While the IRS Oversight Board had recommended a larger increase, the higher appropriation level signified to the Board that the Appropriations Committee and the House of Representatives were sensitive to budget needs for the IRS. However, the original Administration request, as well as the budget recommendations of the IRS Oversight Board, were based on a 3.6 percent pay raise for federal workers. A 4.6 percent pay raise, as is now likely, will result in an additional \$43 million in costs to the IRS in FY2002. Additionally, \$25 million in costs for the tax rebate program, which was not contained in the Administration request or the IRS Oversight Board budget recommendation, will be incurred in FY2002 to administer this one time program.

Thus, although H.R. 2590 contained an additional \$32 million for the IRS, the impact of these other two issues will be to add \$68 million of unplanned costs to IRS operations in FY2002. The net result will be a decrease of \$36 million where an increase of \$32 million was desired.

The IRS Oversight Board has asked the IRS to estimate the effect of the \$36 million decrease. The IRS has provided the Oversight Board with three primary options for allocating this decrease, which are shown below. Each activity presented shows the FTE reduction that would occur, based on estimated productivity rates, if the reduction was allocated solely to that activity. Alternatively, the decrease can be proportionately allocated to all three activities, which would

mitigate the effect on any one activity but would cause a more widespread impact. The impact of the reduction may also be spread among other activities, but these three were chosen to illustrate how the decrease might impact some of IRS' larger programs. The full impact on any one of these three activities would be:

<u>Activity</u>	<u>FTE Reduction Equivalent to a \$36 Million Decrease</u>
Toll-free telephone staffing	704
Small Business/Self Employed (SB/SE) Field Collection	478
SB/SE Field Examination	464

The performance decrease associated with these FTE reductions, based on expected FY2002 productivity rates, is:

<u>Activity</u>	<u>Original Plan</u>	<u>Revised Plan</u>	<u>Percent Reduction</u>
Toll-free telephone calls answered	33,749,888	29,060,738	13.9
SB/SE Field Collection TDA actions	862, 465	775,465	10.1
SB/SE Field Examinations	341,137	327,937	3.9

The IRS Oversight Board believes the IRS is not providing taxpayers with the service levels they expect and need, and is seeking both short- and long-term improvement in IRS performance. Long-term performance improvement will be obtained primarily through the IRS' Business Systems Modernization program. In addition, the IRS Oversight Board believes that the IRS is initiating activities in FY2002 to improve short-term performance, such as implementation of balanced measures, process improvements, and accountability for performance. However, the Board also recognizes that performance and staffing levels are directly related, and staffing decreases at this juncture will only serve to worsen already low performance levels. Your support in conference for higher funding levels would help the IRS deliver better performance to taxpayers in FY2002.

Thank you for consideration in this most important matter. If you desire to discuss this matter further, please call me at 202-622-2581, or have your staff call Chuck Lacijan, Staff Director for the IRS Oversight Board, at 202-622-0905.

Sincerely,

Larry R. Levitan
Chairman, IRS Oversight Board